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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Lapeer County FIA for the period October 1, 1998 through April 30, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Lapeer County FIA had 43 full time equated positions (FTE's) at the time of our review. Lapeer County FIA provided assistance to an average 2,577 recipients per month during FY 1998, with total assistance payments of \$3,154,344 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Lapeer County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp On Line Issuance	Modified Accrual Balance Sheet
Payroll	Procurement Card
Telephone Usage	ENP/SER Payments
Medical Transportation	

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Lapeer County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did, however, find a few instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Lapeer County FIA has reviewed all findings and recommendations included in this report. They indicated by e-mail that they are in general agreement with the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Lapeer County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Daily Mail Record of Cash Receipts**

1. Lapeer County FIA did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the local office used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that a FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that Lapeer County FIA record all negotiables for deposit on the FIA-4729.

### Controlled Document Log

2. Lapeer County FIA did not properly control blank Official Field receipts (FIA-3543). We noted that the local office was not using the Controlled Document Log (FIA-4070) or the Monthly Controlled Document Inventory Reconciliation (FIA-4351) for Official Field Receipts, as required by Accounting Manual Item 403. Use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of controlled documents would be detected on a timely basis.

WE RECOMMEND that Lapeer County FIA use the Controlled Document Log and prepare the Monthly Controlled Document Inventory and Reconciliation for Official Field Receipts.

### Knowledge of IRS Security Procedures

3. Mail room staff, Family Independence Specialists (FIS), Eligibility Specialists (ES), and Family Independence Managers (FIM) at Lapeer County FIA were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Lapeer County FIA familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

#### Medical Transportation

4. Lapeer County FIA did not have completed Medical Needs Authorizations (FIA-54A) on file for 2 out of 7 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Lapeer County FIA ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

#### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Lapeer County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### LOAAS Security

5. The LOAAS and LOA back-up tapes kept on-site at Lapeer County FIA were kept in the Information Technology Technician's (ITT) desk and not in a secure area. Tapes kept on-site are to be kept in a secure location to reduce the risk of loss or damage.

WE RECOMMEND that Lapeer County FIA maintain its on-site tapes of its LOAAS and LOA systems in a secure location.

#### CIS Status Codes

6. The ITT at Lapeer County had a CRS status code on the Client Information System (CIS). This status code would allow the ITT to make changes to client cases and then process payments to those same cases.

WE RECOMMEND that Lapeer County FIA delete the CRS capability for the ITT, or have an independent person review all transactions processed by the ITT under the CRS status.

#### Backup Designated Staff Person

7. Lapeer County FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Lapeer County FIA appoint a backup DSP for IRS information security.